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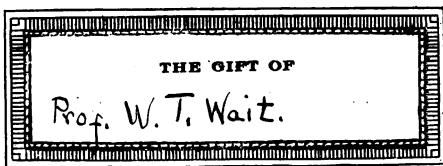
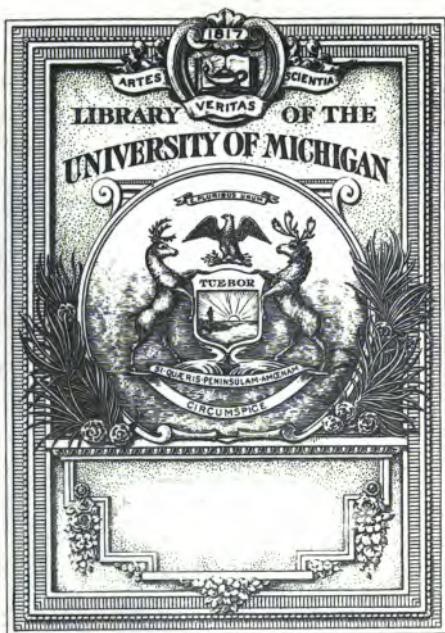
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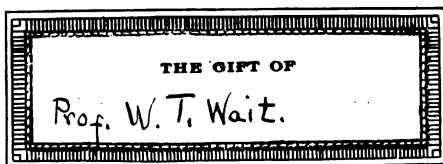
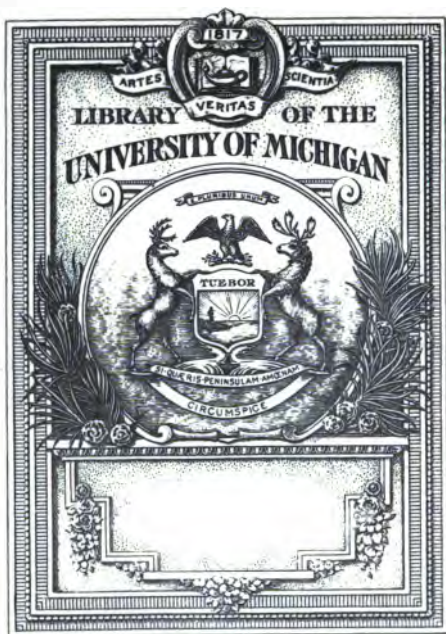
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**A SIMPLE EXPLANATION OF
MODERN BANKING CUSTOMS**

A Simple Explanation of Modern Banking Customs

BY
HUMPHREY ROBINSON

*Edited from a Legal Standpoint by W. Overton Harris, Former
Judge of the Jefferson County (Kentucky) Circuit Court,
Dean of the Louisville (Kentucky) Law School*

Designed for the promotion of closer
and more satisfactory relations between
the public and the banks; for the infor-
mation of depositors generally, and of
those just entering the banking business.



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Prof W. H. Wait
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**A SIMPLE EXPLANATION OF
MODERN BANKING CUSTOMS**

A SIMPLE EXPLANATION OF MODERN BANKING CUSTOMS

I

GENERAL REMARKS

After some years of work in a bank, it has been impressed daily upon the writer that, if the depositors were fully informed about the details of the conduct of banks, closer and more satisfactory relations would result. Hence this attempt to explain, in a simple and concise way, avoiding as much as possible the use of technical terms, certain things that every depositor should know.

For ten years the writer was "in business." For an equal length of time he

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has been connected with a large city bank. He remembers his utter lack of comprehension of banks and their ways, and his consequent mistakes, perplexity, and embarrassment in dealing with them. Also the unfairness and prejudice with which he often judged them.

Recalling all this, he believes that, without giving offense, he can state these facts.

Many men having constant transactions with the banks do not realize the importance of the choice of a bank; few understand the correct way in which a note should be drawn, or how to determine the exact due date of a sixty or ninety-day note, or acceptance; what "protesting" a note or draft really means, and what effect it has on the drawers or endorsers; the functions of the Clearing House and the simplicity of its methods;

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why the banks are compelled to pursue a certain course in the collection of paper sent them, even though this course may be very objectionable to the payers; how checks are collected; the effect of certifying a check; and many other details. Also that very few depositors have ever seen a copy of the National Bank Act, or are familiar with the laws governing their own State Banks and Trust Companies.

This lack of knowledge of the laws and customs, from which there can be no safe departure, is undoubtedly the cause of many unreasonable requests; assertions of fancied rights; remonstrances, and irritating misunderstandings. This condition should not exist. One explanation for it may be, that the work in a bank is so strenuous, everything having to be accomplished in so short a time, that the

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officers and employes do not have the opportunity to explain fully the reason why.

Many seem to think that the details of banking are very complicated. But there is no mystery about these details. They are very simple and sane. The methods of bookkeeping are really elementary, principally mere addition and subtraction. Of course the science of banking and political economy involves deep and profound study, but these are not treated here, and the writer has attempted merely to give an idea of the daily routine of a bank.

This can be stated with certainty. The interests of the public and the banks are identical; and an acquaintance with banking customs will enable any man to conduct his business with much greater intelligence, satisfaction and profit. Also that banks want to accommodate, as far

GENERAL REMARKS

as possible, not only their own customers, but others, because they are possible customers.

It is hoped that this writing, in some small degree, may hasten the time, when the political orators, remembering that the day of the private banker has passed, and that the people now own the banks, will cease inciting the public against them; when the law makers, elected by the stockholders and depositors of banks, will cease oppressing them by unequal and unjust taxation; when the public generally, realizing the necessity and importance of banks to every community, will cease being prejudiced against them and their ways, and, by reason of a better understanding, will feel closer and more cordial toward them.

So "here's to a better acquaintance" between the public and the banks.

II

THE CHOICE OF A BANK

The choice of a bank should be most carefully considered, especially by a business man.

The same care should be exercised in selecting a bank as would be used in choosing your lawyer or your doctor. Having done this, make it a rule to be as frank and open and straightforward with your banker as with your lawyer or your doctor. You will never lose by it. All banking relations must be founded on mutual confidence. Once let your banker get the idea that you have deceived him, and naturally he is forced to view your statements with suspicion. Tell him the

CHOICE OF A BANK

whole truth about your business and your resources, even though it hurts sometimes. It is primarily to his interest to help all his customers build up their business as much as possible, and to keep them going, and your success contributes to the general success of your bank. He should be, not only your banker, but your intimate financial adviser and your very good friend.

In deciding upon your bank, did you inquire into the character and disposition of its President and Cashier? Are they men whose business sagacity and honorable careers are such that you are glad to seek their advice; and can you repose every confidence in their keeping inviolate your business secrets? Will they fulfill to the letter their promises of protection to the best of their ability in times of financial stress? Or, have they exagger-

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ated their resources and facilities and made all kinds of suave, but very general promises in order to get your account?

Have you gone a little further and considered the personnel of the Board of Directors of your chosen bank? That Board is supposed to approve or disapprove all loans and business arrangements. Or, did you open your account with some bank merely because of convenience of location, or because some friend suggested that institution?

III

OPENING A BANK ACCOUNT

In opening your account with a bank, you will be asked to give your signature and your address. Write your name naturally, as you are in the habit of signing it. The paying teller has to accustom himself to the peculiarities of the signature of every patron of the bank, and has to be constantly on the lookout for forgeries; for if he pays a forgery, the bank must stand the loss. He soon gets to know your signature as he knows your face. So don't have your signature on the bank's books as, John P. Williams, for instance, and then sign numbers of your checks, J. P. Williams. The letter

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"J" might stand for James or Joseph, and, if the account is in the name of John P. Williams, the bank is taking an unreasonable risk in paying out your money on a check signed, "J. P. Williams." It would have to make good any loss that might result thereby. A woman, for instance, will open an account as Florence Perkins Smith, and then send out checks signed "Florence P. Smith"; or "F. P. Smith"; or if married, will sign, Mrs. Harry B. Smith.

Then the paying teller must see that every endorsement on the check is technically correct. For instance, that a check made payable to John P. Williams is not endorsed "J. P. Williams," and again that a check payable to "J. P. Williams, Trustee," is not endorsed by J. P. Williams only, and not as "Trustee."

Before going to the paying teller's win-

OPENING AN ACCOUNT

dow you should endorse any check you are collecting; even though it is made payable to "Cash" or to "Bearer." If the check should turn out "no good," the teller can then see at a glance who cashed it, and communicate with the proper party. Compliance with these points saves much delay.

Every check should be endorsed exactly as it is made payable on its face. Many firms, as well as individuals, overlook this point daily.

The paying teller must watch for raised or altered checks. The law holds that any legal instrument is void if altered in any material way.

So many people, if they make a mistake in writing a check, will erase or alter the amount or the name, instead of taking a little more time and making out a new one. The banks have to be very cautious

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and particular about paying such checks, for they are paying out actual cash on doubtful orders. According to law, they must suffer the consequences if they pay to the wrong person or pay the wrong amount.

But all depositors must use every reasonable precaution to keep their checks from being altered in any way. Many people, especially in the rural districts, write checks in lead pencil. How easy it is for such checks to be changed if they fall into the hands of dishonest parties. The rejection of the account of any person, who will be so careless, is plainly only the part of safety.

The figures should be placed close to the dollar mark. In writing the amount of the check in words, begin close to the left hand margin, and when the amount is written, draw a line in the blank space

OPENING AN ACCOUNT

left between the amount, and the word "dollars." The law says that where the figures and the written amount differ, the written amount shall govern.

IV

HOW TO DEPOSIT

In making your deposit, always head your deposit ticket with your name exactly as you wrote it when leaving your signature with the Paying Teller, otherwise, it might be credited to some other person. Also, fill in the amount of your deposit as plainly, and as legibly as possible. After the receiving teller has checked off your deposit ticket, it is passed on to the individual bookkeeper who has charge of your account. He is only human, and any bad figures on your ticket may lead to mistakes and consequent irritation to you.

Always make out your own Deposit

HOW TO DEPOSIT

Ticket. The Receiving Teller should not be asked to do this. There are generally other people in line, and they, as well as the Teller, have a right to complain if he has to stop and do this for you.

List your *money* separately as *gold* and *silver*, and, in entering your *checks*, write against each amount the name of the Bank drawn on, and the town, as plainly and briefly as possible. Then add the various amounts and hand the slip to the teller.

When depositing currency arrange the bills so that the ones and twos will be together, the fives together, the tens together and so on. Have the bills straight and face upward. With the gold and silver follow the same idea. If your deposit is large put the money in packages and label with amount and your name.

By following these directions you will put the Receiving Teller under everlasting

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obligations. He has a very short time in which to accomplish a great deal, and his position at best is nerve racking.

In endorsing a check, either simply write your name on the back, or write "Pay to the order of.....Bank" and then sign your name. When a check is undoubtedly intended for you, and your name is not stated correctly on its face, endorse it *exactly* as it is made payable, and then endorse as you generally do. For instance, if a check intended for Brown Bros. & Co. is made payable to Brown Bros., it should be endorsed first Brown Bros., and then Brown Bros. & Co.

Checks should be deposited or cashed promptly. You have only until the next succeeding business day in which to collect, or deposit for collection, any check. If you hold a check longer than forty-

HOW TO DEPOSIT

eight hours, and the bank on which it is drawn should fail in the meantime, you have released the drawer and must take your chances with the other claimants against the bank. For this reason the banks send out all checks deposited with them for collection on the same day, or the next succeeding business day; otherwise they have released both the drawer and the endorsers, if the paying bank should fail or any loss should result by reason of their delay.

Checks drawn on banks in the same town, and which are deposited after the clearing hour, are held over at the depositor's risk, until the next day.

V

YOUR ACCOUNT ON THE BANK'S BOOKS

There is no mystery about bank book-keeping. It is about the simplest known. The total amount of your deposit is added to the balance you already have in the bank; then the total amount of your checks, that reach your bank that day, is deducted; the result is your balance.

Right here it is well to emphasize that the great majority of the banks *keep no record of the names of the parties from whom you receive checks which you deposit; nor do they keep any record of the names of the people to whom you make your checks payable.*

ON THE BANK'S BOOKS

When you deposit a check, the only record generally kept by the banks is the date that you deposited it, the amount, and the town in which it is payable. If it is on a bank in the *same city*, your bank will keep a record of the name of that bank, but not otherwise.

In handling thousands of checks daily, it can be seen what a stupendous task it would be for a bank to keep a complete record of the drawers and *all* the endorsers on every check. Its force of clerks would have to be doubled or trebled.

The bank should not be expected to keep your private memoranda, and it is the duty of the depositor to keep a complete record of the parties from whom he gets the checks that he deposits or cashes.

If a check is lost in the mails, the bank has a perfect right, after giving the depositor the amount, the date on which it

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was deposited, and the town in which it was payable, to charge the amount to the depositor's account until he furnishes a duplicate of the lost check. So, if you cash a check drawn by John B. Smith, for example, and payable to James A. Jones, and then endorsed by several other parties; it is your duty, and not the bank's, to keep a record of the person from whom you received that check, and obtain a duplicate if it is lost before reaching its destination. Also with all other checks which you deposit or cash.

Many retail firms cash checks for customers; and after endorsing, will deposit them for collection; keeping absolutely no record of the sources from which they received them. For example,—Mrs. Brown, of St. Louis, receives a check from her son in Cincinnati. She gets it cashed at the dry goods store with which

ON THE BANK'S BOOKS

she deals. Then the merchant deposits it, with numerous other checks, in his bank for collection. If the check is returned unpaid, the bank certainly has a perfect right to call on the merchant to pay it. The merchant then calls on Mrs. Brown to pay him. Now if that check is lost in the mails, say burned in a railroad wreck, the bank has the same right to call on the merchant for a duplicate. And it is no valid excuse for him to say that he has no record of the person from whom he received it.

In short, each person endorsing a check should keep a record of the person from whom he received it, or for whom he endorsed it.

On the last business day of every month your statement is made up and you should call for it as soon after as convenient. Then you should assort your canceled

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checks according to the dates or numbers of same, and compare them with the stubs in your check book. This is *very important* in order that you may detect any forged or raised checks and *promptly* inform your bank. If such checks are not reported to the bank in a reasonable time, you will have to stand the loss. The total amount of the checks *not* returned by the bank should be the exact amount of the difference between the balance as shown by your check book and your bank book. For example,—you give a check on the last day of the month; it does not reach your bank until the first, second or third day of the next month. It can not be charged to your account until it does reach your bank; therefore, the bank's statement will generally show a larger balance than your check book. The dif-

ON THE BANK'S BOOKS

ference is the amount of checks that are out.

Banks do not like to tell the amount of your balance over the telephone. They can not identify you "over the 'phone," and some person, who has no business to know, may be inquiring into your affairs. For the same reason they do not like to state the amount of your balance to any one in person, unless you authorize it. That is a confidential matter between you and the bank, and they make this rule for your protection as much as their own.

VI

STOPPING PAYMENT OF A CHECK

If, for any reason, you desire to stop payment on a check, communicate with the paying teller as quickly as possible. Give him a full description of the check, the name of the party to whom it is made payable, the number, the date, and the amount. Then *always* confirm this action in writing. If, after examination of your checks, the bank informs you that this particular one has not been paid, you can safely issue another, if desired. Inform your bank, however, that you are issuing a duplicate, and write the word "duplicate" across the face of the check.

VII

HOW THE BANK COLLECTS THE CHECKS YOU DEPOSIT

When your deposit is handed in to the Receiving Teller, he assorts the checks you give him into "foreign" and "clearing" items.

The "foreign" items, that is, checks or drafts on banks in other towns, are then passed on to the route clerk. He, in turn, assorts them so that they may be sent to the banks that will collect them for the least possible cost. For instance, if your bank is situated in the middle West, the checks you deposit on the far West will be sent to a Chicago or St. Louis bank. Checks on Eastern cities, except New

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York possibly, will be sent to Philadelphia or Baltimore. Checks on nearby towns probably will be sent direct to banks in those towns. The reason for not sending checks direct to the towns on which they are drawn, is, that often they can be collected much more cheaply by sending them through other large cities.

The less expense your bank incurs in collecting, the less it will have to charge you. The depositor should understand that the bank's charges for these collections are figured at about cost.

It is a fact that an examination of this account on the books of any city bank almost invariably will show that it is a source of loss rather than profit. In other words, the city banks really charge their depositors less than it actually costs for collections on other towns.

The "clearing" items, that is, checks on

COLLECTING CHECKS

banks in your own town, are passed to the Clearing House clerks. The collection of these checks through the Clearing House, and the operation of that institution, are next explained.

VIII

THE CLEARING HOUSE

The Clearing House is simply a meeting room for the convenience of the different banks in a city; a place in which to swap checks. Small towns have none. Ordinarily no figuring is done here except addition and subtraction. Its operation is simple.

Suppose you owe Brown \$10.00, and you owe Jones \$5.00.

Then suppose Brown owes you \$5.00, and owes Jones \$4.00.

Then suppose Jones owes you \$3.00, and owes Brown \$5.00.

Now, instead of each of you going around to two other places; you three meet in a certain conveniently located room to

THE CLEARING HOUSE

square, or clear up, accounts. This saves time and steps. A clerk is in this room to do the sums for you.

With a little addition and subtraction he has the following:

You owe Brown and Jones together	\$15 00
Brown and Jones together owe you	8 00

Therefore, you owe Brown and Jones together \$ 7 00

You and Jones together owe Brown	\$15 00
Brown owes you and Jones together	9 00

Therefore, you and Jones together owe Brown \$ 6 00

You and Brown together owe Jones	\$ 9 00
Jones owes you and Brown together	8 00

Therefore, you and Brown together owe Jones \$ 1 00

The clerk then announces that you owe \$7.00 here; Mr. Brown is entitled to receive \$6.00, and Mr. Jones is entitled to \$1.00. Then he gives Mr. Brown an order on you for \$6.00, and Mr. Jones an order for \$1.00. Nothing complex about this if you know how to add and subtract.

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Now just substitute for your name, the First National Bank; for Brown's, the Second National Bank; for Jones', the Third National Bank. Then put the figures up into the thousands or hundreds of thousands of dollars in place of the small ones given above. Then name the room where you met, the Clearing House, and call the clerk who did the sums, the Clearing House Manager. Then call the orders he has given, the Clearing House Manager's checks. No matter how many banks in any one city, or how large the figures, this simple method of settling is in operation daily.

Say there are twenty banks in your city. Your bank receives through the mails, and from its local depositors, numbers of checks on the other nineteen banks in the same town. The clerk, who goes to the Clearing House, and his assistants as-

THE CLEARING HOUSE

sort these checks into nineteen different piles. Each bank goes by a number at the Clearing House. Then these checks are stamped on the back about like this—"Paid through the ——— Clearing House"; then follows the date, and name, and number of the bank which sends them. These nineteen piles of checks are added up into nineteen different totals; the checks on each bank being kept in separate bundles. The nineteen totals are added into one grand total. The clerk then starts for the Clearing House with nineteen bundles of checks; and a sheet which shows how much his bank has against each of the other banks; and the grand total it has against all the other banks combined. Therefore, at a certain hour, generally noon, on each day, twenty clerks, one from each bank, meet at the Clearing House. Each one takes his

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stand at his desk. When the manager taps the bell, every clerk makes the round of all the other desks, and leaves the bundle of checks he has against each bank with a slip showing the total amount of the package. When this is over, each desk has nineteen bundles of checks on it and nineteen slips showing the different totals.

Each clerk then adds up these nineteen totals, and the grand total resulting shows what all the other banks have against his bank. He then reports two amounts to the Manager of the Clearing House,—the grand total of the checks he has brought in, and the grand total of the checks which have been brought in against him.

Say he has brought in \$100,000.00 worth of checks against the other nineteen banks, and they have brought in \$90,000.00 worth of checks against his bank.

THE CLEARING HOUSE

Then his bank has a credit at the Clearing House of \$10,000.00.

After the Manager figures up from these totals handed him by the different bank clerks, he finds that certain banks brought more than was brought against them, and that certain other banks brought less than was brought against them. In other words certain banks have "lost" at Clearing while others have "gained" and at a later (designated) hour of the day, the debtor banks pay in their losses at the Clearing House and the creditor banks receive their gains, the total losses and gains, of course, exactly offsetting each other.

While the systems employed at the Clearing Houses of the various cities of the United States may vary in some particulars, they are all founded on the principles stated in the preceding paragraphs.

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These principles have been so perfected that the clerks from the different banks are at the Clearing House for a few minutes only each day. The Manager imposes a fine of several dollars on the bank for every mistake in calculation its Clearing House clerk makes; also for tardiness.

To return to the checks which have been brought back from the Clearing House. If, on examination, the Paying Teller has discovered any forgeries, or irregular or missing endorsements, or anything suspicious about any checks; or if the bookkeepers have found that any check overdraws the account of the depositor, the bank has only until the close of banking hours to return such checks and collect from the banks that sent them through the Clearing House. So the examination of these checks must be made carefully and very quickly.

THE CLEARING HOUSE

The "*Clearing House Association*" in your city is what might be called a Mutual Aid Society, which the banks have organized for purposes of mutual convenience and protection. This Association pays the expenses of the Clearing House; the Manager's salary; the rent; etc. It adopts rules and by-laws and fixes fines and penalties for breaking them. But it is not an incorporated body and can not sue or be sued.

In time of panic, the Association is a tower of strength, not only for the banks themselves, but for the whole community. The associated banks, at such times, have it in their power to make or break the business interests of their city. *But their interests are identical with the interests of their patrons.* Remember the banks are owned by the people, not by two or three private individuals. The failure of any

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one bank, or of any one business house, increases the panicky feeling. Therefore, the Clearing House Association naturally and from very self-interest, must do its utmost to keep its members and their customers on their feet. In financial storms, the Association may adopt certain rules and regulations which may seem unreasonable to the public; but these methods are put in force for "the greatest good of the greatest number"; not only for the protection of the banks, but of their customers and depositors. It is a time for the public to be as reasonable as possible; to uphold the banks and their officers and directors. It is a time for the public and the banks to come closer together. Rest assured the banks have no desire to see any firm or person fail in times of panic, or any other time. They make their

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largest dividends when business is brisk and everything is prosperous.

What every Clearing House Association does want to wipe out, however, is the dishonest and reckless banker. He is a menace and source of anxiety to every bank in the community. The sooner the other banks can detect and expel him from the business, the better. In some cities, notably Chicago and St. Louis, the Clearing House Association regularly employs expert accountants to make periodical and unexpected examinations of the banks in the Association. If any bank is found to be doing a reckless business and not living up to the rules and regulations of the Clearing House, it is heavily fined or expelled. And expulsion from the Clearing House means ruin for that bank as soon as the business community learns of it.

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All Clearing House Associations should adopt this strict supervision.

Many a bank was saved embarrassment and possible failure in the recent panic of 1907 by the wise methods put into effect by the Clearing House Association. Selfishness and enmity were ordered to the rear. There are always banks whose officers have less foresight and wisdom than others. Some of these had been lending too freely, and their actual cash reserves were not sufficient to meet the storm of checks of their frightened depositors; frightened mainly because of ignorance, for, with a few exceptions, the banks were in good condition. To call in their loans and replenish their supply of cash would cause business failures and add to the panic.

So the Clearing House Associations of the different cities determined that the

THE CLEARING HOUSE

strong and wise banks should help the weak and foolish ones. Loan Committees were appointed to sit daily at the Clearing House. The various banks brought to this Committee notes they had discounted, or stocks and bonds owned by them. If the Committee thought them good, the Clearing House Association would lend the bank bringing them, up to about 75% of their face value. Of course, the Clearing House Association did not lend these banks actual cash, but they issued them Clearing House certificates, bearing interest, which could be used among the banks in settling daily claims against each other; just as if the banks had deposited actual cash at the Clearing House. In this way, if Bank Number One had the Clearing House Manager's check on Bank Number Two for \$50,000.00, in settlement of some daily balancing at the

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Clearing House, Bank Number Two could pay Bank Number One with Clearing House certificates instead of actual cash. In other words, the banks which had a number of good notes, or stocks and bonds, but a small amount of cash, were saved by the combined, unselfish and patriotic action of all the banks working together for the common weal.

If the public generally knew of the many instances of generosity and unselfishness that were shown in the Clearing Houses in this and other panics, the banks, as a class, would not be denounced and condemned as they sometimes are. And this unselfishness was not exercised by the banks for the salvation of the banks alone, but for the business interests of the whole community as well; for, as has been pointed out, *the interests of the banks and the people are one.*

IX

A CERTIFIED CHECK

Your check is nothing but a piece of paper on which is written an order on your bank to pay some one a certain sum. Strangers might not like to accept this piece of paper in payment of debts due them. In many cases your check should be "certified."

When a depositor presents a check to his bank to be certified, it should be handed to the Paying Teller. He, in turn, hands it to the individual bookkeeper having charge of that depositor's account. If the bookkeeper finds the balance sufficient to cover the amount of the check, he stamps across its face the words "Good for \$——— (the sum named in the check)

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when properly endorsed." Then the Teller or some officer of the bank, signs that statement and the amount of the check is immediately charged to that depositor. In other words, the bank guarantees or certifies that your check is good.

The bank must be very particular about certifying a check. If any officer or employe of a National Bank certifies a check, which calls for more than the maker of the check *actually* has to his credit, such officer, or employe, has committed a penitentiary offense. This provision of the National Banking Act is most strictly enforced, and the penalty is severe.

When certification is necessary, the maker of the check should be the one to have it certified. If you take Brown's check to his bank and have it certified, you release Brown entirely and can only hold

A CERTIFIED CHECK

the bank. For example,—a man sold a piece of land, and, on delivering the deed, took the purchaser's uncertified check. After the purchaser had left with the deed, the seller, thinking the check might not be good, had it certified. The bank failed that afternoon. The purchaser proved that he had more than the amount of the check to his credit on the bank's books. On consultation with his lawyers, the seller found that he had no claim on the drawer of that check and could only file his claim against the bank with its other depositors. And he only received about fifty cents on the dollar when the bank's affairs were finally wound up. All because he did not insist on the purchaser of the land having his own check certified. If he had done this he could have held both the purchaser and the bank.

By having your check certified, you

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practically exchange your check for one guaranteed by the bank. For example, the bank certifies your check for \$100.00. It immediately *charges* your account with the \$100.00, and *credits* its "certified check account" with \$100.00. Then when your certified check comes back to the bank, through the person to whom you delivered it, the bank *charges* its "certified check account" with \$100.00, and the transaction is closed.

Therefore, if, for any reason, you decide not to use a check after you have had it certified, *do not destroy it as you would an uncertified check*. Be sure to bring it back to the bank so that the amount may be *credited* your account, and be *charged* to the bank's "certified check account."

Otherwise your account will remain charged with the amount and your balance will show that much less.

X

PROTESTING NOTES, DRAFTS, ETC. WHY NECESSARY AND HOW IT IS EXECUTED

Protesting notes, drafts, checks, or other commercial paper is simply warning or giving notice to people, *secondarily* liable on that paper, that it has not been paid when due. The person who ought to pay the paper is *primarily* liable. All other persons who have endorsed the paper or drawn it on another person, firm or bank are *secondarily* liable.

You have endorsed Brown's note. Brown does not pay it when due. If you do not receive a prompt notice of this, you might endorse another note for Brown

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under the false impression that he had paid the first one.

Likewise, if you have endorsed Jones' draft on his firm, or his check, and his firm, or his bank refuses to pay such draft or check, both you and Jones should receive prompt notice that payment was refused. With such notice you would not endorse for Jones a second time unless he made good to you, and explained matters satisfactorily. If Jones was honest in drawing his draft or check he is entitled to prompt notice of non-payment so that he can take immediate steps to get his money. Possibly his firm is embarrassed financially, or his bank has failed.

Say Smith & Co. have drawn a draft on a customer and have taken it to a bank and secured the money on it. If the customer refuses to pay the draft, the bank wants prompt notice so it can collect from

PROTESTING NOTES

Smith & Co. And Smith & Co. want prompt notice so they can take legal steps at once to protect themselves, and probably stop further shipments to this customer. Various other instances might be given where endorsers or drawers of paper might suffer loss or damage from lack of notice of its non-payment.

The law holds that this giving of notice is of such grave importance, that, if the bank receiving paper for collection does not promptly notify all persons, *secondarily liable*, of non-payment, all such persons are released from obligation, and the collecting bank must take its chances on making the amount from the payer. This statement must be qualified to this extent. If a *check* is not protested, the maker of the check must *prove* that he has suffered loss by not receiving notice of non-payment. But the drawer of a draft, or the

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endorsers on any check, draft, or note are released, whether they suffer damage or not. Generally speaking, a check is a written request of a depositor to his bank to pay a certain sum to a certain party; whereas a draft is a written request of any one to a firm or individual, to pay a certain sum to a certain party.

Of course, if the bank receives orders from the parties sending them, *not* to protest certain notes, checks, or drafts, it must obey these orders. But if no such instructions accompany the paper, the bank *must* protest or make itself liable.

Every bank of any size has one of its employes appointed a Notary, or it can employ a Notary on the outside. He is an officer appointed by the State, and is under bond to the State to perform all his duties according to law.

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When the bank hands protestable paper to a Notary, it is his duty to make a formal demand at the proper place on the person who should pay it. If payment is refused, the Notary makes an exact copy of the note, draft or check at the top of a printed form used for this purpose. Then, over his signature as a Notary, accompanied by his official seal, he states that he has made a demand in person for payment of the paper described by him; and, on payment being refused, he has "protested" the non-payment. Also that he has mailed or delivered notices of this non-payment to all the parties secondarily liable on this paper and states their names. The Notary's official statement is called the "Instrument of Protest." The notices he mails are called the "Notices of Protest." Certain fees are allowed the Notary by

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law for protesting. These are called "Protest Fees," and become a part of the debt.

Of course, the person who ought to have paid the paper gets no "Notice of Protest." He certainly knows if he has not paid. The Notary must keep a copy of all his "Instruments of Protest." This is a public record, just as any court record is, and as accessible to the public. It is rarely examined, however.

So, from the language prescribed by law, that the Notary uses in his "Instrument of Protest," comes the common use of the terms "protest" and "no protest" paper.

To bind the parties *secondarily* liable a Notary can protest paper only on the *exact* day it is due. Otherwise he might put it off several days, or demand payment before it was due, and damage might result

PROTESTING NOTES

in either case. So, if the protesting is not done on the exact date when the paper is due, it is of no avail.

The maturity of a draft reading so many days, or months, after *date* must be calculated from the date of the draft itself. But the maturity of a draft reading so many days, or months, after *sight* must be calculated from the date it was presented to the sight of the payer and accepted. It is very necessary to date acceptances of time drafts reading "after sight."

Demand for payment must be made at the proper place during business hours. A check of course is payable at the bank on which it is drawn, during banking hours. A draft on a firm is payable at its office; likewise a draft on an individual is payable at his office, or if he has none, then at his residence. Notes or accepted

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drafts are payable at the place stated on their face. But, when no place of payment is stated, demand for payment must be made at the office of the maker of the note, or the acceptor of the draft; or if he has no office, then at his residence. When you draw up a note it is the proper thing to state on its face "payable at _____ bank" (giving the name of your bank); or "payable at my office"; or "payable at my residence."

Likewise, when accepting a draft, write the date, then "accepted, payable at _____" (stating your bank, or residence) across the face of the draft over your signature. Therefore when a note, or an accepted draft is made payable at a certain bank, demand for payment *must* be made at that bank, and *not* on the maker of the note, or the acceptor of the draft. Most notes and accepted drafts are made pay-

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able at the bank of the payer. All of them should be. In this way, if you keep money enough in your bank to meet your notes and acceptances, just as you keep money there to meet your checks, the bank will save you all worry about their payment in case you or your bookkeeper overlook them. Under such circumstances your paper would never be protested.

In accepting a note from a customer, *do not have it made payable at your bank.* Have the drawer make it payable *in his own town and at his own bank.* Demand for payment must be made at the exact place stated in the note. As every business man is particular about protecting his credit in his own town, and *especially* at his own bank, it is obvious that he will be most diligent about providing for the payment of paper made payable at the bank with which he is doing business.

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Notes and accepted drafts should be sent, a week or two in advance of their maturity, to the town in which they are made payable. If paper, made payable at New Orleans, for instance, is not in New Orleans *when due*, proper demand for payment can not be made and the drawers or endorsers might be released.

There is absolutely no law requiring a bank to send you a notice that it holds your note, or draft accepted by you, for collection and due at some future date. It is customary for banks to send such notices, but it is only a courtesy. It is *your* duty to keep account of when your paper is due, and to have funds at the place of payment when it is due. The banks that do so are very careful about sending out these notices, but the public should regard it as a favor shown them and not as their lawful right. Many people do not

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know or appreciate this fact. You should always put your street address just below your signature on a note so that notice can be addressed properly. Also, in drawing a draft, always put the name of the person or firm, on which it is drawn, in the lower left hand corner, and *invariably* state the street address.

XI

THE LOCAL COLLECTION DE- PARTMENT

A bank has a perfect right to refuse to accept and to return any checks, notes, drafts, etc., sent it for collection. But if it does accept them, it must obey the instructions of the sender, literally and exactly. The bank has absolutely no right to disregard these instructions, no matter how obnoxious or disagreeable they may seem to the payer of the paper.

Many people regard all collectors as offensive and unwelcome. They wish to take their own time about paying their debts. Please mark this difference between the collector of your grocer's or

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druggist's bill, and the city bank as a collector of your note, or of a draft on you. The monthly collector must turn in cash for the majority of the bills given him or lose his position. But it really makes little difference to the bank whether you refuse or pay the note or draft that some other bank has sent it.

When collections are sent to a bank direct by firms, or by banks in another city, that do not keep an account with it; the collecting bank makes small fees, but these fees are very insignificant.

So, by prompt payment of notes and drafts, you are conferring more of a favor on yourself than on the bank. It is wise to protect your credit with strange banks as well as your own. Every bank receives many confidential inquiries concerning the financial standing of firms and persons in its city. If not personally known to the

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officer in charge of this correspondence, he invariably inquires of the collection department as to the promptness with which the parties in question meet their notes and drafts. And even though you are not a patron, a bank in your own city would rather give you a good financial reputation than a poor one.

The collecting bank must regard most carefully the instructions of the sender, especially about protesting or not protesting. Also about telegraphing payment or non-payment, and whether to hold the paper after it is due or not. In no case must it surrender any documents attached to a draft until the draft is paid, or accepted; and, in case of acceptance, documents attached must not be surrendered unless the sender so directs.

When drafts have Bills of Lading attached, and the draft states on its face that

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it is payable on arrival of the goods, the bank can hold it until the goods arrive; but if the draft calls for payment on presentation, even though it has a Bill of Lading attached, the bank holding it, until the arrival of the goods, does so at its own risk. As has been stated, and it can't be stated too forcibly, the presenting bank has no option and must obey orders to the letter. If it does not, it must suffer any resulting loss. It is only an agent and can not regard the wishes of the payer.

Another point you should bear in mind. The bank must not only pay strict attention to the instructions of the sender of the collection, but it must follow the law. In self-protection a bank must keep itself informed about the laws regarding collections and any changes in these laws.

If a bank accepts anything but the actual cash in payment of a collection, it

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does so at its own risk, and not at the risk of the sender. For instance, a bank has a draft on Smith, or holds Smith's note for collection. Smith offers his check in payment. If the check turns out "no good" the bank must recover the paper immediately, and any document which might have been attached; otherwise the sender can hold the bank for the amount. Therefore, when you tender your check to a bank in payment for collections, you are asking them to take a risk. If you are not well known in the bank, it is only a reasonable request for the bank to ask you to have your check certified. Don't ask the bank to have it certified; for, as has been explained in the remarks on "Certified Checks," the bank by so doing would release you, and could hold only the paying bank. You might just as well ask a strange bank to *cash* your check as to offer

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it your uncertified check for a collection on you. You would hardly cash a check for a stranger. Why should the bank take an equal risk for you? Yet nothing seems to rouse the ire of the average man more, than for the collection clerk to ask him to have his check certified.

It is a well-nigh universal rule in all Clearing House Associations, that the banks, which are members thereof, shall not collect checks on each other before the daily hour for meeting. Also it is a general custom not to collect from each other, checks that are deposited, or taken in payment for paper due, after that hour. Hence, when a bank accepts uncertified checks in payment before the clearing hour, it will know before closing time whether such checks are good. But, if a bank accepts an uncertified check in payment after the clearing hour, either, it

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must have it certified, and thereby release the drawer; or, it must hold it until the next day at its own risk. The banks always respect the man who has his check certified, if tendered after the clearing hour.

For these same reasons you can see why a bank can not take a check on a bank in some other town in payment of a collection. It then would be several days before the bank would know whether the check was good or not. Also the bank would be out that amount of money for the length of time it takes to collect that check; for every bank must remit to the sender on the very day it puts its "Paid" stamp on a collection and delivers it to the payer.

Therefore, when a bank notifies you that it holds your note, or a draft drawn on you, for collection, bear in mind four

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points. First: the bank must follow the instructions of the sender or owner of the paper. Second: it can not disregard the law. Third: you are benefiting yourself more than the bank by paying your paper promptly. Fourth: the bank is taking a risk every time it accepts anything other than actual cash for a collection.

The collecting bank can not consider the instructions of any one but the bank or persons from whom it receives the item. For instance, you live in St. Louis, and have sent your note to Brown & Co. of Bridgeport, Conn. Brown & Co. discount your note with their bank, or give it to their bank for collection. Before it is due the Bridgeport bank forwards this note to a Philadelphia bank, which in turn forwards it to a St. Louis bank. You are duly notified by the St. Louis bank. For various reasons you may not wish to pay.

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In that event, positively the only way to have this note recalled is for you to communicate with Brown & Co. Then they must request its recall by the Bridgeport bank, which in turn instructs the Philadelphia bank. Then that bank instructs the St. Louis bank to return the note. In other words, all instructions must come through the same channels by which the note was originally sent. Bear in mind that you are not the owner of this paper, nor is the bank which receives it for collection.

When a draft has the words "with exchange" on its face the drawer is asking the payer, not only to pay the amount of the draft, but also the bank charges for collecting. Unless the presenting bank has instructions to collect this exchange or return the draft, it can accept the amount of the draft and deduct its charges

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when it remits for the collection. So don't feel resentment toward the bank when it asks you to pay for collection charges. Many people do. But the bank is only following instructions and cares nothing whether you, or the fellow at the other end, pays the cost.

Because it is human nature to object to paying out money, the Local Collection Department is the recipient of more complaints and unreasonable requests than any other department of the bank. Any number of actual happenings could be set down.

Now the law says that banks shall keep open *during certain hours* on every business day, which is not a legal holiday. After the closing hour there is a tremendous amount of work to be done. The tellers must balance their cash; the bookkeepers must take off a balance of every

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account on their particular set of books; and every check and draft deposited, or received through the mails, and payable in other towns, must be listed and forwarded for collection. Nothing can be held over without risk, no matter how heavy the day's work. The rule in every bank is to clean up all the work on the very day it is received. None of this daily balancing of cash, or books, can be commenced until the last check has been cashed, the last depositor has come in, and the last payer of a collection has settled. For instance, the payment of a single draft or note after banking hours, necessitates the holding open of several sets of books or the erasure and changing of various totals by the bookkeepers. It is a very mistaken, but popular, idea that the bank employes practically are through with their duties at the close of

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banking hours. The fact is, that the usual hours for the employes are from eight till five, and it is no uncommon thing for the clerk and officers to be hard at work many hours after the business houses have closed.

Yet many persons think the bank very disobliging if it refuses to transact business after hours. One unreasonable individual insisted that he had until sundown to pay his note on the day it was due. When the collecting bank told him it would be protested if not paid before the end of banking hours, he became very abusive and wanted to know who gave that bank the power to say how late he could pay. He was politely referred to the law makers, but this did not lessen his resentment against the bank.

The foregoing are statements of actual daily occurrences and are only fair sam-

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ples of the injustice with which many persons treat the banks. And it is mainly the result of ignorance of the laws and customs, which the banks *must* obey.

XII

THE LOAN DEPARTMENT

As a preface to the remarks on this department, the following simple and concise statement is taken, by permission, from that excellent book, "Money and Banking," by Mr. Horace White. (Book II, Chapter I, page 235, Edition of 1895.)

"FUNCTIONS OF A BANK"

"A bank is a manufactory of credit and a machine of exchange. Mr. H. D. McLeod's analysis of the mechanism of banking is substantially this: A man has \$5,000.00 of his own money. He starts a bank. His neighbors deposit \$45,000.00 with him. This money becomes the abso-

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lute property of the banker. The depositors have simply a right to withdraw an equal amount whenever they like, which right can be enforced by law. The banker owns the money and the depositor has a claim, or right of action, against him for an equal sum. But the depositors will not draw the money out immediately; if they had intended to do so, they would not have deposited it at all. The banker finds by experience that some of his customers will deposit as much money as others draw out, so that \$50,000.00 is on hand all the time. He concludes that if his own \$5,000.00 in connection with his good reputation, is considered by the public a guarantee for \$45,000.00, then the whole \$50,000.00 will serve as a guarantee for at least \$200,000.00. When he begins, his balance sheet reads in this way:

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LIABILITIES.

Deposits\$45,000.00

ASSETS.

Cash\$50,000.00

“He now begins to discount the commercial paper of his customers running say ninety days at 6%. When he discounts a bill of exchange for \$1,000.00, he deducts the interest for ninety days (\$15.00) and credits the customer the remainder (\$985.00) on his books. This \$985.00 is called a deposit, because the customer has the right to draw it out by his check exactly as he could draw out an equal sum of gold deposited by him in the same bank. In the eye of the banker, and of the customer, and of the law, it is a deposit. In ordinary times it is like any other deposit. That is, the proportion remaining uncalled for at any time will be about the same as the proportion of actual money deposited. Yet

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it is nothing but a bank credit. Hence the word deposit, when thus used, is clearly a misnomer, since, by derivation and common understanding, a deposit means a thing laid away, or given in charge of somebody. It must be borne in mind, therefore, that bank deposits consist of two different things, namely, (1) money, (2) bank credits, and that the latter may be four or five times as large as the former.

"The process continues till the banker has \$200,000.00 of discounted bills in his portfolio. Then his accounts stand thus—

LIABILITIES.		ASSETS.	
Deposits	\$242,000.00	Cash	\$ 50,000.00
Profit	3,000.00	Loans & Dis-	
		counts	200,000.00
	\$245,000.00		\$250,000.00

"This is Mr. McLeod's exposition and it

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is the correct one. It follows that the banker has manufactured something which serves as a medium of exchange to the extent of nearly \$200,000.00. This something is credit. Goods can be bought and sold with it as readily as with money, since the checks drawn against these deposits are universally accepted. The whole \$200,000.00 of bills are not discounted in a lump, but gradually, so that some are always maturing and bringing money in to meet the checks of customers, in an endless chain of deposits and discounts. It is found in practice that \$200,000.00 of loans and discounts may be easily carried on \$50,000.00 of cash. Thus, the loans of all the National banks in the United States in October, 1894, were \$2,000,000,000.00, and their cash (including silver certificates and silver dollars) was a trifle less than \$400,000,-

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000.00, or only one-fifth of the amount of the loans. The other four-fifths was credit, and perfectly sound credit too, for it had passed through one of the severest panics in our history.”

The foregoing quotation is an unanswerable argument for the need of banks as manufacturers of credit in every community. The greater the banking capital in any section, the easier it will be for the people of that section to carry on and enlarge their business.

The Loan Department is not only the most important, but it is the money-making end of the bank. If it makes no loans it will pay no dividends. If, on the other hand, it makes bad loans, it will go out of existence.

It can be understood readily that the successful bank officer, whose duty it is

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to accept or reject loans, must be a person of large experience and wide knowledge of men and affairs. He must be an excellent judge of human nature. Not too conservative, nor yet too venturesome. He must be a constant student of financial conditions; and must expand or contract his loans as the sea of finance is placid or stormy. His responsibility is great. He must lend, but he must lend judiciously, millions of other people's money. He can not allow feelings of personal friendship to warp his judgment. He must be thoroughly familiar with the laws concerning the making and the collection of notes.

In an address to the National Banks in 1863, the Hon. Hugh McCulloch, the first Comptroller of the Currency, gave this sound advice:

"Do nothing to foster and encourage

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speculation. Give facilities only to prudent and legitimate transactions. Distribute your loans rather than concentrate them in a few hands. Pursue a straightforward, upright, legitimate banking business. Treat your customers liberally, bearing in mind that a bank prospers as its customers prosper."

In lending, the bank should encourage the *business interests* of its community and should discourage speculation.

If every one, before asking a loan, would put this question to himself, "Would I take this risk," his banker would be saved much embarrassment. On the other hand, if you know your security is good, there is no reason why you should feel any degree of awe or nervousness in offering your own or your customer's notes. That is what the bank is in business for, and your proposition, if not

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made for purposes of reckless speculation, is welcomed in ordinary times.

Bear in mind, however, that your banker may, at times, have to refuse your paper, because he has seen clouds on the financial horizon of which the average person is ignorant, and he is endeavoring to protect, not only his stockholders, but his patrons, from the storms that are imminent. It is advisable for you to consider his views carefully, and probably to curtail business expansion.

Your average balance on the bank's books has a great deal to do with the amount of the loans, no matter how well secured, that you can ask reasonably.

Every bank has a number of customers who expect to be taken care of in the loan department. But, if all the bank's patrons are borrowers, it soon will have loaned out all of its funds. The bank must have

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depositors also. While some depositors do not ask for loans, experience has shown that the proportion of a customer's balance to his loans must be sustained in order to keep the bank adjusted. In New York the banks generally require a regular customer to keep an average balance of not less than twenty per cent. of the loans made him. Most interior banks consider ten per cent. about the right proportion. For example, in the interior cities, if your account shows an average balance of \$200.00, you can reasonably request loans, properly secured, of \$2,000.00. An average balance of \$1,000.00 should entitle the depositor to loans of \$10,000.00 and so on. Experience proves that if the banker does not keep this important point in mind, his machinery will be "out of gear."

Speaking generally, it will pay any con-

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cern to *borrow* money, if necessary, to show a fair balance to its credit. Bankers are only human, and all business is selfish. Every bank will be disposed to take care of its best paying customers first in times of financial storms. Every merchant looks out for his best customers first. Why not a banker? When a firm attempts to hold its bank down to the last cent of profit, keeps no balance to speak of, and subjects the bank to endless expense in the collection of its checks and drafts, it can not reasonably expect as liberal treatment in "squally times" as the concern which pursues the broader policy of "live and let live."

Some firms, if they would figure it out, could see plainly that the bank was handling their account at a loss; yet, they think they are conferring a great favor in placing their business with any bank.

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A large concern was pursuing this narrow policy. Among other things it made a practice of borrowing large sums in other cities at four or five per cent. when the local rate was six. The recent panic came on. Money advanced to fifty, to one hundred per cent. in New York. The local banks were having all they could do to take care of their own good customers. The result was that this firm came to the verge of an assignment. And, if it had not happened that the banks of its city did generously come to its rescue, it would have collapsed.

It is well to remember, that, while the rates of interest in New York are temptingly low at times, they fluctuate violently and often without warning; also that the bankers in a strange city have no personal interest or local pride in your success or failure.

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Money is only a commodity, and rates of interest are governed by supply and demand. Now the *supply* of money in the New York banks varies tremendously, by millions of dollars in fact. This variation comes from many causes. On the other hand, the *demand* for money in New York is constantly changing. The reasons for this are manifold. But in the smaller cities, both the supply and demand are much more uniform and steady. Hence the rates of interest, outside of New York, are much less liable to change. Therefore, unless the demands of your business exceed the banking facilities of your town, it is *very* advisable for you to confine your loans to the local banks.

The loan department is restricted by certain laws, just as the other departments. State and Savings Banks, and Trust Companies must obey the laws of

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their particular State, but any bank having the word "National" as part of its name, or the letters "N. A." (National Association), or the letters "N. B. A." (National Banking Association) following its name, must adhere strictly to the provisions of the National Bank Act. The Congress of the United States has forbidden the use of the word "National" as part of the name of any Bank or Trust Company which does not comply with all of the sections of the National Bank Act.

As the statutes differ in each of the separate States, only the laws governing National Banks will be considered here.

The whole spirit of the National Bank Act in relation to loans is to prevent the advancing of money on anything but "quick assets." In other words, loans must not be made on any security, that

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can not be turned into money quickly. For this reason a National Bank can not lend on real estate as a security. Also it should not accept notes having longer than ninety days or four months to run. The fundamental principle of the law is the guarding of the depositors' money; to have it ready for them at all times. But the *whole fabric and theory of banking is founded on the fact*, demonstrated by centuries of experience, that at no *one* time do *all* the depositors want to draw *all* their money from *all* the banks. Also that every day some loans are due and can be converted into cash if necessary.

Payment of demand, or "call," loans can be demanded any day. On time loans, payment can not be asked for until the maturity of the note, the day agreed upon by the bank and the borrower.

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On demand, or "call," loans the interest must be paid at the end of every three months, or when the loan is paid. On time loans, the interest, or discount, is paid in advance.

Notes reading one, two, three, or four months after date are due, of course, one, two, three or four months after the date of the notes. But thirty, sixty, or ninety-day paper is not due in one, two, or three months. This is a common error. The exact number of days must be calculated. The following table for determining the maturity, or "due date," of thirty, sixty, or ninety-day paper is herewith given:

**TABLE FOR FINDING MATURITY OF NOTES AND
DRAFTS
At 30, 60, and 90 Days**

DATED IN MONTH OF	AT 30 DAYS Will be Due Same Date in	AT 60 DAYS Will be Due Same Date in	AT 90 DAYS Will be Due Same Date in
JANUARY	February less 1 day	March plus 1 day	April
FEBRUARY	March plus 2 days	April plus 1 day	May plus 1 day
MARCH	April less 1 day	May less 1 day	June less 2 days
APRIL	May	June less 1 day	July less 1 day
MAY	June less 1 day	July less 1 day	August less 2 days
JUNE	July	August less 1 day	September less 2 days
JULY	August less 1 day	September less 2 days	October less 2 days
AUGUST	September less 1 day	October less 1 day	November less 2 days
SEPTEMBER	October	November less 1 day	December less 1 day
OCTOBER	November less 1 day	December less 1 day	January less 2 days
NOVEMBER	December	January less 1 day	February less 2 days
DECEMBER	January less 1 day	February less 2 days	MARCH

EXAMPLE.—Paper dated March 15th at 90 days is due June 18th.

TO PROVE.—Exclude day of date, then 16 days in March, plus 30 days in April, 31 days in May, 18 days in June equals 90 days.

Paper apparently due, from this table, on February 20th is, of course, due March 2d, or apparently due April 31st, is, of course, due May 1st.

In Leap Year allowance must be made for 29 days in February.

For paper payable in States allowing grace use table, then add days of grace.

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National Banks can lend only a certain proportion of their deposits.

In New York, Chicago, and St. Louis, called Central Reserve Cities, National Banks must keep on hand, in lawful money, a reserve of twenty-five per cent. of their deposits.

In Albany, Baltimore, Boston, Cincinnati, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, Philadelphia, Pittsburgh, San Francisco and Washington, called *Reserve Cities*, the National Banks must have the same reserve of twenty-five per cent. of their deposits. But the National Banks in these last-named thirteen cities can keep one-half of *their* reserve in National Banks located in any of the three Central Reserve Cities, viz.: New York, Chicago and St. Louis.

In all other cities or towns the National Banks must have a reserve of fifteen per

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cent. of their deposits, but nine per cent. of *their* reserve can be kept in National Banks located in any of the thirteen "Reserve Cities"; or in National Banks in the three Central Reserve Cities.

"Approved Reserve Agents" are the banks of the larger cities, selected by the banks of smaller cities or towns, in which to carry part of their reserve. These selections *must* be approved by the Comptroller of the Currency, the executive head of the National Banking System.

A National Bank is forbidden to lend more than ten per cent. of its combined capital and surplus to any one firm or individual. "But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money bor-

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rowed." Also no National Bank can lend on its own stock as security.

The Comptroller of the Currency can have an examination made, as often as he may deem proper, of the condition of any National Bank. The visits of the National Bank Examiners are never announced in advance. They come suddenly and without warning. Their duties are not only to balance the books and count the cash, but also *critically to examine each loan and its security*; and to give especial attention to loans to any director or officer, and to any concerns in which they may be financially interested.

If the bank is overloaned, that is, has loaned more than the law allows, the examiner immediately reports it, and the Comptroller of the Currency orders that bank to cease lending, and to require payment of enough of its loans to make good

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the reserve required by law. And if the bank does not court disaster and the closing of its doors, it hastens to obey orders and to "get in line."

The supervision of the National Banks is not perfunctory or careless. It is very strict.

The inquisitorial powers of the National Bank Examiners are practically unlimited. They have a legal right to put any bank officer on oath in questioning the affairs of the bank. They look into every department in the most searching way, and any disobedience of the law is reported promptly to the Comptroller. These Examiners are appointed by the United States Government; and if they want to hold their positions, they must be strictly impartial in their reports to the authorities.

The provisions of the National Bank

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Act have been so rigidly enforced, *that in forty-four years, or since the Act was passed by Congress, the average annual loss to depositors in National Banks, has been only thirty-seven one thousandths part of one per cent. of their deposits.* Practically no loss at all.

Isn't that a tribute to the wisdom of that law; to the strict supervision of the Government; and to the honesty and integrity of the officers of National Banks; past and present? It has happened, of course, that some spoilers have occasionally obtained control of a National Bank, and have dishonestly used the depositors' money in risky ventures for their own profit. But the officials of the Treasury Department have soon sized them up, and such men shortly find the banking business not to their liking, especially with "Uncle Sam" as a supervisor.

XIII

NEW YORK EXCHANGE

Practically every bank in the United States keeps part of its funds in banks in New York City, the money center of the country. All National Banks are allowed to keep part of their reserve in the National Banks of New York, Chicago and St. Louis, the three Central Reserve Cities. For these reasons checks drawn on banks in these three cities are generally accepted at par, that is, collected without cost to the depositor.

In this connection, the word "exchange" comes from the fact that you *exchange* your personal check for the bank's check

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on another bank, located in some other city.

In remitting for collections, or for balances due, the banks outside of the three Central Reserve Cities, generally send their checks on one of these cities, according to their location.

Under certain conditions you will notice your local newspapers quoting New York Exchange at so much premium or so much discount. These rates are generally in use only between the different banks in your city. The banks do not charge a depositor any premium for its checks on other cities, unless the amount of the checks called for is large.

The proper way to draw your check when you want New York Exchange, is to make it read "Pay to the order of New York Exchange." The bank then makes out its check on a New York bank payable

NEW YORK EXCHANGE

to your order. Then you should endorse the bank's check to the order of the party to whom you are remitting.

Banks do not like to sell their checks on other banks to strangers. Some expert at raising checks may buy New York Exchange for ten dollars and raise it to ten thousand. Also he might buy the bank's check with the idea of obtaining the Cashier's signature for the purpose of forgery.

XIV

THE METHOD OF ISSUING NATIONAL BANK NOTES

Many people have the idea that a National Bank, having a capital of, say one hundred thousand dollars, can call on the United States Treasury Department for an equal amount of National Bank Notes, without expense to the bank; and thus have double the amount of its capital to lend at the start.

The National Bank Act does say that each National Bank *must* issue currency equal to a certain per cent. of its capital; and further, that each National Bank *can* issue currency equal to the full amount of its capital. But the profit on taking out

NATIONAL BANK NOTES

this currency, or circulating notes, is so very small that many banks do not issue as much as the law allows.

These circulating notes must be issued under certain expensive conditions. First—the bank must purchase and deposit with the Treasurer of the United States an amount of registered United States Bonds, equal at their par value, to the amount of the circulating notes called for. Second—dependent on the kind of bonds deposited, the bank must pay a tax on its circulating notes. Third—the bank must stand the expense of plates for printing and the express charges for sending it the original issue of its notes. Also, when any of its worn-out or mutilated notes are sent to the Treasury Department, they are destroyed, and the bank then has to pay the expense of re-issue and the express charges for sending them to the bank that

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originally issued them. The signature of the President and Cashier of the bank must be affixed.

Therefore National Banks, in calculating the possible profit on taking out circulating notes, have the following example to be considered in issuing every one hundred thousand dollars of their notes:

Bonds purchased: United States		
Registered 2% bonds to be paid		
at par in 1930.		
Price of bonds 104	\$104,000.00	
Par value of bonds purchased ..	100,000.00	
Money worth 6%.		
Income from bonds	\$2,000.00	
Income from circulating notes loaned at 6%	6,000.00	
		\$8,000.00

LESS DEDUCTIONS.

Annual tax on circulating notes .	\$500.00	
Sinking Fund to retire premium		
on bonds at maturity, amount		
to be charged off each year ...	181.00	
Expenses (plates, express charges,		
etc.)	75.00	756.00

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Net Income from Circulating Notes	\$7,244.00
Net Income from loaning \$104,000.00 (net cost of bonds purchased) at 6%	6,240.00
Net profit on taking out \$100,000.00 of cir- culating notes	\$1,004.00

Hence the net percentage of profit on taking out National Bank notes on this class of bonds, is about one per cent., based on their *present* market price.

The profit on taking out circulation on other United States bonds is even less.

Suppose the market price of the 2% bonds purchased was higher, say 108, as it was several years ago, the profit would be even less. Also, if the bonds decline in market value below par (as in case of war, for instance), the bank must stand that loss; and purchase and deposit an additional amount of bonds, so as to make the market value of the bonds deposited equal to the amount of its outstanding circulating notes.

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In order to retire its circulating notes and obtain possession of its United States Bonds, deposited as security therefor, the bank must send the Treasury Department an amount of lawful money equal to the amount of the circulating notes it wishes to retire. It can then "withdraw a proportionate amount of the bonds held as security for its circulating notes."

But the law says that not more than nine millions of National Bank Notes can be retired in any one month. Therefore, if the market price of United States bonds goes up to a point where all profit on its circulation is wiped out, the bank may have to wait several months until previous requests for retiring circulation are out of the way. In the meantime United States bonds may have gone down in price.

As has been stated, a National Bank *can* take out an amount of circulating

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notes, or National Bank currency, equal to the amount of its capital. But the profit on the operation is so small (leaving out the chances of actual loss) that many banks do not issue notes to the full amount allowed. The following figures relative to the total capital of all the National Banks, and the total circulation of these banks on the dates stated, conclusively prove this fact. (These figures are taken from the annual report of 1907 of the Comptroller of the Currency.)

	November 12, 1906.	January 26, 1907.	March 22, 1907.
Capital			
Stock ...	\$847,514,653.00	\$860,930,624.00	\$873,669,666.00
Circulating			
Notes ..	536,109,931.00	545,481,870.50	543,320,375.00

	May 20, 1907.	August 22, 1907.
Capital		
Stock	\$883,690,917.00	\$896,451,314.00
Circulating		
Notes	547,918,696.00	551,949,461.50

It can be seen from these figures that the

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National Banks *could* have taken out *over three hundred millions* more of circulating notes than they *actually* issued during the time stated. And these figures are not exceptional.

Banks, other than National, "shall pay a tax of ten per centum on the amount of their own notes used for circulation and paid out by them." This tax is prohibitive and no State Banks issue circulating notes for this reason.

XV

THE SO-CALLED "SPECIAL PRIVILEGES" OF BANKS

In every political campaign, especially the National ones, the orators talk a great deal about the "special privileges" of banks. But they are never defined exactly.

According to them, one privilege (?) the bank enjoys is the power to lend a certain per cent. of its depositors' money. But if it could not do this, what reason would the bank have for existing? That is its principal real source of profit.

Practically the only other privilege the National banks have, is the right to take out National Bank Notes, or currency.

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As has been shown in the remarks on "The Method of Issuing National Bank Notes," this privilege allows so little profit that the banks do not use it to the full extent of the law.

On the other hand, consider a few of the many risks the bank is constantly taking. Every loan it makes is a risk. A few bad loans, made through dishonest or visionary representations of its customers, may blot out the bank's profits for a year or more. Every check or draft cashed is a risk. Every check, draft, or note it takes for collection is a risk. In fact, every transaction the bank undertakes is more than ordinarily hazardous. Moreover the profits of the average city bank are not large. Considering their responsibilities and the innumerable ways by which they may involve the bank, the salaries paid the employes, from the President to the mes-

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sengers, are small. Also remember there is no “water” in the stock of banks. The capital of every National Bank must be fully paid in, before it is allowed to open for business; and in most of the States, the banks, other than National, must have their entire capital paid up within a year from their beginning. The net profits of successful banks, located in cities with a population of one hundred thousand or over, average about six to ten per cent. The business man, when considering an investment in a mercantile or manufacturing enterprise, generally counts on double that amount of dividends.

If, as the politicians state, the banks enjoy so many “special privileges”; it is strange that the people of every section of the country do not rush in to organize and take stock in banks.